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Nation's Restaurant News®

THE NEWSWEEKLY OF THE FOODSERVICE INDUSTRY

SECOND CLASS

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Value weds variety at Chancery

The Chancery Pub & Restaurant, a six-unit Milwaukee-area chain, aims to offer a little something for everyone — and it does so at a 'value' price with a 'good-time' atmosphere. See story on page 7.

NRN Photo

Investors ink deal to buy Papa Gino's

Greenleaf CEO Miles leads group in buyout of pizza chain

by Theresa Howard

DEDHAM, Mass. — An investment group organized by Gordon Miles, chairman and chief executive of Rusty Pelican and Carlos Murphy's parent, Greenleaf Ventures Inc., has sealed a deal to purchase the 218-unit, family-owned Papa Gino's pizza chain here.

Miles' group will pay Michael and Helen Valerio an undisclosed amount for the chain they founded. The investors include McCown DeLeeuw and Co., a New-York based capital venture firm and investor in Greenleaf's holding company, VSRA, and Merrill Lynch Interfunding Inc., a subsidiary of Merrill Lynch & Co. The transaction is expected to be completed by year-end.

Separately, Greg Dollarhyde, formerly the president and chief executive of Greenleaf's Rusty Pelican chain, has left the company. Scott Barnett, former vice president of operations, has been named to succeed Dollarhyde.

According to Greenleaf's chief financial officer, Dan Bylund, Dollarhyde's departure is completely unrelated to the Papa Gino's acquisition by Miles' group.

Meanwhile, Miles will serve as chief executive for the Papa Gino's chain "at least for the first couple of months," according to Bylund.

The acquisition of Papa Gino's comes two years after the 30-year-old chain launched a franchising program and pushed into the delivery market. But last year the chain, which is primarily located in New England, was hit hard by the region's recession and laid off workers for the first time in the company's history. Aside from dismissing 25 employees, the company also shelved its delivery business and franchising program.

Although the pizza chain was profitable in its last fiscal year, the company's estimated $136 million in sales marked only a 1-percent gain over the figure for the same period in 1989. The company expects

(See PAPA, page 73)

Brinker prepares to test l[illegible]price Italian concept

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[illegible], the operator
[illegible] then sold the Romano's Macaroni Grill concept to Brinker, is spearheading the launch. "Phil is working on the project with us; he's the one who got us interested in it," Cardwell explained.

Cardwell added that Spageddie's, which he said is just the temporary name of the project for planning purposes, will have 180 to 200 seats and "is a prototype for a future concept."

He said the test unit probably would open around March 1992 in Plano, Texas, a suburb of Dallas.

Analysts said the new concept likely would compete with such value-oriented chains as Spaghetti Warehouse and Old Spaghetti Factory, which concentrate heavily on pasta and have price points around the $7-to-$8 range.

Many have been skeptical that the four-unit Romano's concept, which has an average check hovering around $14, has potential for major expansion à la The Olive Garden.

"I'm a little surprised that

(See BRINKER, page 73)

Exec VP Perry exits Karcher Enterprises

by Richard Martin

Perry

ANAHEIM, Calif. — Raymond J. Perry, who in 1989 was dubbed the probable future chief executive of the Carl's Jr. chain by president Donald F. Karcher, has resigned abruptly as executive vice president of Carl Karcher Enterprises "to pursue other interests."

Company spokeswoman Patricia Parks said Perry's duties as the 600-unit fast-food chain's No. 3 officer would be assumed temporarily by Karcher and his brother, Carl N. Karcher, the Anaheim company's chairman and chief executive.

Parks said a successor to Perry will be named at an undetermined time. She did not elaborate on reasons for his Oct. 31 resignation, which was immediately effective, but said it "does not imply a change in corporate strategy."

In a Sept. 30 letter to shareholders, the Karcher brothers said they were "continuing to focus on stimulating [virtually flat restaurant] sales, while

(See PERRY, page 4)

INSIDE

A new horizon in global opportunities
James C. Doherty/Page 31

Promoting Cognac through education
Mort Hochstein/Page 32

RA steers Ford Foundation to top of B&I dining
Page 35

Rotisserie chicken enters the coop at Mrs. Winner's

by Jack Hayes

ATLANTA — In a move to broaden its menu and attract new customers, Mrs. Winner's Chicken & Biscuits, a regional quick-service chain with units in five Southeastern states, is rolling out rotisserie chicken into all company-owned restaurants.

Although the company said it was too early to gauge sales of the new product, a Mrs. Winner's unit manager in suburban Roswell, Ga., reported the customer response has been strong. "This is really taking off," he said. "It's reaching 25 percent of my volume."

"We've got a lot of people trying it and liking it," said marketing vice president John Gray, who added that the chain would introduce the rotisserie product with a major advertising campaign in five markets.

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Vol. 25, No. 44 November 11, 1991

NEWS BRIEFS

Calif. court issues gay-rights ruling

SACRAMENTO, Calif. — Weeks after Gov. Pete Wilson vetoed legislation that would have prevented employers from discriminating against gay employees and job applicants, a state appeals court has granted that protection in a landmark ruling.

The action prevents restaurateurs and other employers from denying employment or a promotion to persons on the basis of their sexual preferences.

In a 3-0 decision, the justices on the State Court of Appeal ruled that efforts to secure equal rights for homosexuals are a political activity protected by the political-protection provisions of the state's labor codes. The decision explained that the codes prevented employers from discriminating against staffers because of their political activities.

Earlier this year, Gov. Wilson rejected a bill that would have had the same effect. He argued at the time that such protection was not needed. Several prominent members of the foodservice industry had lobbied against the measure discreetly.

Arby's introduces smaller prototype

MIAMI — Arby's Inc., operator and franchisor of about 2,500 quick-service sandwich restaurants, has developed a smaller, more efficient building prototype designed to improve return on investment in major markets and unit economics for secondary markets.

Dubbed the A1791 in reference to its square footage requirements, the prototype is about 19 percent smaller than the previous 2,200-square-foot model and seats 48 people, compared with the 60- to 80-seat capacity of the previous design. Gaylon Smith, Arby's senior vice president of franchising, said the model can be situated on a 15,000- to 20,000-square-foot land parcel, while the larger building requires 45,000 square feet of land.

"We're looking at a building [cost] in the range of about $150,000," Smith explained. "In the past it was $250,000."

The new design, he remarked, should handle the flow of customers needed to generate "$750 to $800 hours."

Franchisees of the Miami-based company got their first look at plans for the new building at the chain's recent convention in San Francisco.

Uno sues Dunkin' over Chili's deal

BOSTON — Uno Restaurant Corp. is suing a subsidiary of Dunkin' Donuts Inc., claiming unfair business dealings in the sale of the exclusive Northeast development rights of Chili's Grill & Bar to a New York investment group.

The owner and operator of the Pizzeria Uno chain here is suing Dunkin' Ventures Corp., the former franchisee of 15 Chili's units, for an unspecified amount of damages plus attorney's fees for allegedly failing to act in good faith during the doughnut chain's efforts to sell the casual dinner-house restaurants.

Uno had expressed interest when Dunkin' Ventures first put its 15 franchised Chili's units up for sale last year. Uno backed down, though, after Dunkin' reached an initial agreement with the New York investment concern, Jacobson Partners, L.P.

But after the deal between Dunkin' Ventures and Jacobson collapsed, Uno rejoined the bidding. Uno is now claiming that Dunkin' Donuts had continued to negotiate with Jacobson even after the donut chain had struck a "final agreement" with Uno for $8 million.

A deal between Jacobson and Dunkin' Ventures was concluded last month for between $7 million and $8 million.

Neither party could be reached for comment.

Le Bernardin owners open Miami operation

MIAMI — Gilbert and Maguy Le Coze, the French-born brother-and-sister restaurant team who own and operate the fashionable Le Bernardin in New York, have opened Brasserie Le Coze here.

Like its New York predecessor, the 300-seat Miami restaurant emphasizes seafood although it offers other fare as well. Per-person dinner checks are expected to run about $30.

The Le Cozes, who had previously owned and operated a two-star Michelin restaurant in Paris, opened their Manhattan operation, Le Bernardin, in the Equitable Building in 1986. It was quickly awarded four stars, the New York Times' highest restaurant rating. Soon afterwards they closed their Paris operation.

Buckhead Life breaks ground for seafood place

ATLANTA — Only three months after opening its newest restaurant, Pricci, the Buckhead Life group here has broken ground for a casual seafood concept in the same neighborhood with Pricci and its 4-year-old cousin, Buckhead Diner.

Boasting an upscale shack theme, the new restaurant will feature a casual front porch lounge called Crazy Crab, a retail store and a sophisticated takeout area.

"It'll look like something between a brick warehouse and a Savannah train station," said Buckhead Life president Pano Karatassos, who hired the ZakaSpace team (designers of Shaw's Crab House and other units for Chicago-based Lettuce Entertain You Enterprises) for the project.

Karatassos vigorously denied reports that his still-successful tablecloth restaurant at Lenox Square Mall, The Fish Market, would be shuttered after the yet-unnamed new unit debuts next spring.

"The Fish Market is profitable, and we still have a lease to honor," Karatassos said.

LEYE set to open three concepts

CHICAGO — Lettuce Entertain You Enterprises is scheduled to open its newest restaurant, Maggiano's Little Italy, later this month.

Richard Melman, LEYE president, describes Maggiano's as reminiscent of restaurants in New York's Little Italy. It will feature large portions of Southern Italian favorites meant for sharing.

Corner Bakery, LEYE's first bread bakery, is located next door and will supply breads for Maggiano's and possibly for other restaurants in the company.

The group's first Greek restaurant, Papagus, is expected to open in January on street level of the new Embassy Suites Hotel just west of Michigan Avenue. Patrick Kuleto, San Francisco-based restaurant designer, is designing Papagus.

Big 4 launches mall prototype

SCOTTSDALE, Ariz. — Big 4 Restaurants Inc. has launched Gill's Grill, a counter-service seafood prototype for mall food courts, at the Palm Court Cafes area of the Scottsdale Fashion Square.

"Gill's Grill introduces Big 4 to a new opportunity doing high-quality, creative fast food in a mall food court atmosphere," said Big 4 president Lee Cohn, the Phoenix-area theme restaurant pioneer and co-founder of the Ed Debevic's diner concept.

Decorated with "whimsical" nautical decor, the mall unit specializes in grilled skewers of shrimp, chicken, fish and beef on seasoned rice as well as fish and chips, crab cocktails, clam chowder, "heart healthy" snapper, grilled fish sandwiches and salads. Prices range from $3.50 to $5.75.

Former Omni hotel exec named prexy of Sky Chefs Inc.

ARLINGTON, Texas — Michael Z. Kay, former president of the Omni International Hotel Chain, has been named president of Sky Chefs Inc., a large in-flight feeder based here.

In his new position, Kay will oversee operations, human resources and product development. He will report to Sky Chef's chief executive, J.J. O'Neill, who most recently held the president's post.

Kay has 27 years experience in the hospitality industry. Most recently he was executive vice president and management consultant for Charter Medical Corp. in Macon, Ga.

The company also announced that Randall Boyd has been named senior vice president of marketing and customer service. He will oversee both domestic and international marketing efforts.

FINANCIAL NEWS

Spaghetti Warehouse net up 59% for 1st quarter

by Alan Liddle

GARLAND, Texas — Providing a textbook example of how the pursuit of tax credits and the elimination of debt can greatly boost the earnings of well-run company, Spaghetti Warehouse Inc. reported a 59-percent increase in net income, to $1.26 million, for the 13 weeks ended Sept. 28.

Officials of the 19-unit company, which specializes in building high-volume family restaurants in redeveloping urban areas, said first-quarter revenues rose 27 percent, to $13 million, compared with the same period in 1990. The company operated four fewer restaurants in the year-ago quarter.

"The absence of interest expenses along with the increase in revenues accounts for most of it [the gain in net income]," explained William B. Rea Jr., the company's vice president of finance. "And our income tax rate continued to be low [at 20.3 percent of sales]."

Rea said same-store sales for the quarter were up 2.1 percent, with a 1.5-percent hike in menu prices in August contributing to the gain. Customer counts for the quarter rose 3 percent, which offset a 1-percent dip in the chain's average guest check to $7.54, he said.

"We've seen more customers drinking water instead of [ordering] tea," Rea said of the no-frills approach to dining recently displayed by some Spaghetti Warehouse customers. "We think it's the economy. People are tightening their belts and watching what they buy."

The quarter-to-quarter drop in average checks is the first such decrease in customer spending at Spaghetti Warehouses in some time. In its 1991 annual report, the chain indicated that its average guest check has risen in each of the past five fiscal years.

Spaghetti Warehouse eliminated its long-term debt in June through a secondary offering that raised $5.7 million. The savings in interest expenses for the most recent quarter, compared with the same quarter a year ago, was approximately $116,000.

The chain's practice of renovating rundown buildings, such as old warehouses, in areas of cities slated for redevelopment is netting it some noteworthy tax advantages.

Primarily on the strength of such tax credits, the chain's income tax rate in the most recent quarter dropped by 30 percent compared with the year-ago quarter. In other words, the company brought in an additional $2.8 million in revenues but actually paid $1,000 less in taxes.

"The targeted jobs tax credit is in there [part of the decrease in tax rate], but 90 percent of it is the rehab[ilitation] credit," Rea said.

In a year-to-year comparison, Spaghetti Warehouse's cost of sales remained fixed at 24.6 percent of total sales, while its general and administrative expenses rose in dollar terms but declined from 14.1 percent to 12.1 percent of sales.

Operating expenses rose from 44.5 percent to 45.9 percent of sales, and depreciation and amortization increased from 4.9 percent to 5.3 percent of sales. The 27-percent larger revenue base, coupled with the absence of interest payments and the two-point drop in general and administrative charges, more than offset the increased expenses, however, and the result was a pretax margin of 12.1 percent of sales.

The prior year's pretax margin was 10.8 percent.

Release of the quarterly report helped push Spaghetti Warehouse's stock to a 52-week high of 26 7/8, up 2/8 from the previous high and the level reported at the close of trading the preceding day.

According to analysts at Montgomery Securities in San Francisco, Spaghetti Warehouse is "outperforming the market." Michael Mueller, a managing director, said he has long been impressed by the company's management and added that the recent addition of former Burger King and Steak & Ale executive Louis P. Neeb, who became president in July, can only bolster the team.

Mueller characterized Spaghetti Warehouse's pretax return on investment as "among the highest in the industry." He said the chain's pretax return for a typical unit "is in the 30-percent-to-40-percent range."

"The longer-term growth prospects for the company are good," the analyst observed, "because it has a relatively small number of restaurants right now."

Addressing growth, Spaghetti Warehouse's Rea said the company is "on track" to develop four more restaurants by the end of its current fiscal year in June.

Founded in 1972, Spaghetti Warehouse operates full-service restaurants seating from 325 to 600 people. The pasta-anchored menu features entrées priced from $2.95 to $8.50, which include soup or salad and sourdough bread.

The chain's average annual sales per restaurant, for units open at least a year, were about $2.6 million in fiscal 1991, according to company officials.

FACT FILE

FINANCIAL DIGEST

Chart House's 3rd-Q profits fall 24%

SOLANA BEACH, Calif. — Chart House Enterprises said net income fell 24 percent, to $1.7 million, for the third quarter ended Sept. 30, on a slight 2-percent rise in revenues, to $42.1 million.

Six of the company's eight newest units failed to meet sales and profit goals and marred the company's overall performance.

Chart House said that through the first nine months it netted $3.9 million, a 36-percent decrease from the figure for the year-ago period, on a 7-percent gain in revenues, to $124.3 million.

Ruling lets Applebee's chief keep stock

KANSAS CITY, Mo. — Ruling in a divorce case, The Jackson County Circuit Court has decided that Abe J. Gustin, president and chief executive of Applebee's International, will be allowed to keep all of his stock in the company.

Noting that Gustin owns more than 800,000 shares, or 17 percent of the casual-theme restaurant company, the court said that awarding his wife, Joanne Gustin, any part of the stock would put Gustin in default on various loan agreements "which could subject the stock to foreclosure."

Gustin's stock has been put up as collateral against debts in excess of $10.7 million owed to the Merchants Bank of Kansas City.

The attorney for Joanne Gustin said he'd appeal the ruling, noting his client is seeking 60 percent of Gustin's stock in Applebee's.

Rally's net income jumps 39 percent

LOUISVILLE, Ky. — Rally's said its third-quarter net income jumped 39 percent, to $1.9 million, on a 21-percent gain in revenues, to $25.3 million.

The company said the bottom line benefited from lower costs of sales and major reductions in food promotions and couponing. Top-line figures were boosted by its ongoing value menu strategy, Rally's said.

"Our value concept focuses on the total cost of a meal and is not limited to a few low-cost items or to constant discounting," said Wayne M. Albritton, president and chief operating officer.

The company said its net income could have surged even more were it not for the acquisition of the 19-unit Maxie's of America earlier this year in a stock-swap transaction, which knocked $180,000 out of its third-quarter profits.

For the nine months ended Sept. 9, Rally's net income rose 7 percent, to $4.2 million, on a 14-percent increase in revenues, to $69.2 million.

Systemwide sales grew 22 percent during the three months, to $58.4 million, and rose 16 percent through the first nine months, to $159.7 million.

Sonic net soars for year and quarter

OKLAHOMA CITY — Sonic Corp. said net income quadrupled for the year ended Aug. 31, to $3.7 million from $940,600.

Revenues for the year jumped 17 percent, to $53 million.

In the fourth quarter net income rose to $1.5 million, from $446,700 in the year-ago period, on a 20-percent increase in revenues, to $15.6 million.

"We are pleased with the increase in comparable restaurant sales in view of the fact that much our our industry segment is currently experiencing sales and traffic decreases," said C. Stephen Lynn, president of the company.

Net income in fiscal 1991 included an extraordinary expense of $594,800 related to unamortized loan costs that were paid out of the proceeds from the company's initial public offering in February.

FOOD PRICE OUTLOOK

Canned fruit, orange juice prices rising

by Patt Patterson

Florida's orange crop, although a good one, won't be up to last year's levels, and this is prompting most frozen orange juice concentrate packers to raise prices. The U.S. Department of Agriculture dropped its forecast figures sharply, to 136 million boxes. That's nearly 10 percent less than last year's. While it's still 23 percent more than the 1989-90 crop, which was hit hard by a freeze, it's going to cut packer inventories through 1992. Initial price hikes have been in the 6-percent-to-8-percent area. Depending upon Brazilian concentrate prices, there may be further hikes.

West Coast canners are raising prices on 6/10 cling **peaches, Bartlett pears and fruit combination packs.** Hikes run from 50 cents to over $1 per case. The canned peach pack is down about six percent from last year, and most packers have kicked up the price by 50 cents. The Bartlett pear pack in the Northwest was short, and packers are taking on about $1 per case. In California, some packers are talking about $1.25 per case.

The **California frozen strawberry** pack is up this year, about 15 percent higher than last year's. Mexican imports are down nearly 10 percent. Prices are stable.

There's a short pack of **ripe olives** in store. The crop was less than half that of 1990. Look for probable price increases . . . The **cranberry** crop is up this year by more than 15 percent. Expect stable prices for both canned sauce and fresh berries through the holidays . . . It looks as if **dried beans** are going to be in big, big supply this year. Export action is down, and a bumper — near record — crop is in sight. Prices are moving downward.

The **tomato** pack is just about done. Despite worries about the late start, deliveries to California packers hit a record. Prices are mostly holding but may start sliding when inventory information is released. The big question for next year: Will the drought in California cut canned-tomato supplies and push up prices?

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NRN Photo

At ...ican eating 'joint' are partners John Terczak, left, and Larry Peters.

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T...k defies recession, o... 3 new Chicago places

by ...ip

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su... ...erations as Gordon in Chicago and numerous restaurants in New York — where he worked for the American Stanhope Hotel and David Keh — has opened three restaurants in the last six months. And he's planning to open still more.

"The public has $10 or $15 in their pockets to spend for dinner on a regular basis, but not $30. It doesn't matter what the economy does," Terczak said. His three new restaurants — Ketchup, Tamales and Chameleon — are targeting frequent diners who live in the surrounding neighborhoods.

And as Terczak is fond of saying about any of those three restaurants, "It's not a place to go for dinner; it's a place to eat." He makes an exception for his older restaurant, Terczak's, which has a $25 check average for its large portions of homestyle dishes.

He said that a variety of circumstances made it possible for him to start new businesses in rapid succession — availability of investors, reasonable rents in spaces where other restaurants had failed, low overhead and the right partners and managers.

(See TERCZAK, page 49)

Gilbert/Robinson files for Ch. 11

by Peter O. Keegan

KANSAS CITY, Mo. — Gilbert/Robinson Inc., franchisor of the Houlihan's and Darryl's chains, has filed for Chapter 11 bankruptcy protection, another victim of an overleveraged buyout in the late 1980s.

Hobbled by Gilbert/Robinson's $188 million debt load, executives of the 104-unit casual restaurant company found themselves unable to service the mounting interest payments while continuing to maintain operations.

Comparable-store sales were also down between 2 percent and 4 percent earlier this year, due to the recession, further constricting the company's cash flow.

"We could have limped along for another year or so, but we looked at the debt plus reduced sales and sat back and said, 'We'd better do it now,'" explained Frederick Hipp, president and chief executive of Gilbert/Robinson. "We felt that we couldn't maintain the viability of the company with this debt load; it needed restructuring. Our No. 1 purpose is to renegotiate the debt, reduce it and lower interest rates."

Last year the company paid more than $26 million in interest payments.

Hipp stressed that "it remains business as usual at all Gilbert/Robinson restaurants. All restaurants will remain open. There will be no layoffs at corporate level or in the field."

With operations in 25 states and the District of Columbia, Gilbert/Robinson's restaurants include 60 Houlihan's, 31 Darryl's, six specialty seafood restaurants, six dinner houses and the "Buena Vista" cafe. The company employs about 11,000 people.

In addition to Gilbert/Robinson Inc., I & M Acquisition

(See GILBERT, page 48)

Self-serve bars help B&I feeders 'do more with less'

Recession spurs buffet-service growth as contractors fight to trim labor costs

by Robin Lee Allen

NEW YORK — Business and industry contract feeders seeking the delicate balance between their customers' culinary demands and shrinking corporate subsidies are finding self-service an increasingly attractive way to tip the scales in their favor.

Now, alongside the familiar salad bars and self-serve beverage stations that have long graced cafeterias are a growing number of hamburger and hot-dog topping bars, taco bars, yogurt and ice-cream bars, soup bars, sandwich bars and even hot-entrée bars where customers help themselves and pay by the ounce.

Although considered somewhat impersonal, self-service bars and buffet-style spreads reduce costs by eliminating personnel, not customers' food selections, and they are appealing to customers who want to control what they eat and how much.

"Self-serve is a way of doing more with less," said Gary Gunderson, corporate manager of Motorola Foodworks in Phoenix and president of the Society for Foodservice Management. SFM is an industry association for business and industry contract feeders. "We're able to sell our products and remain competitive by using our guests and customers to serve their own food."

The recession has spurred the growth of cafeteria self-service stations as corporations look for discreet ways — that is, ways without a detrimental effect on their employees' morale — to save money.

(See SELF-SERVE, page 8)

NRA rails against FDA over labeling proposal

by Peter Romeo

WASHINGTON — The National Restaurant Association has blasted the Food and Drug Administration for suggesting that restaurants meet certain of the nutrition-information requirements that were recently proposed for packaged-goods suppliers.

Congress specifically exempted restaurants from a watershed 1990 law that will soon obligate food processors to provide a detailed nutrient breakdown of the products on the foods' packages.

However, in drafting the regulations that would put the law into practice, the FDA suggested that restaurants would lose their exemption — at least in part — if they were to make nutritional claims about their fare.

At the very least, the agency said, restaurants would have to express their claims by using a glossary of "descriptors," such as "light," "fresh," "reduced" (as in "reduced-fat") and "free" (as in "salt-free"). Each of the descriptors has been explicitly defined by the FDA in an attempt to standardize the meaning of those commonly used terms.

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